

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 57861

**CHELAN COUNTY, WASHINGTON**

January 1, 1995 Through December 31, 1995

Issue Date: November 22, 1996

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## TABLE OF CONTENTS

	Page
<hr/> <b>Management Section</b> <hr/>	
Independent Auditor's Report On Compliance With Laws And Regulations At The Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260) . . . . .	M-1
Independent Auditor's Report On Internal Control Structure At The Financial Statement Level . . . . .	M-3
Schedule Of Findings:	
1. Chelan County Should Comply With The Growth Management Act And Spend Tax Revenue Appropriately . . . . .	M-5
2. The County Should Improve Internal Controls Over Compensatory Time . . . . .	M-6
<hr/> <b>Financial Section</b> <hr/>	
Independent Auditor's Report On Financial Statements And Additional Information . . . . .	F-1
General-Purpose Financial Statements:	
Combined Balance Sheet ) All Fund Types And Account Groups - 1995 . . .	F-2
Combined Statement Of Revenues, Expenditures And Changes In Fund Balances ) All Governmental Fund Types - 1995 . . . . .	F-6
Combined Statement Of Revenues, Expenditures And Changes In Fund Balances ) Budget (GAAP Basis) And Actual ) General And Special Revenue Funds - 1995 . . . . .	F-8
Combined Statement Of Revenues, Expenses And Changes In Retained Earnings ) All Proprietary Fund Types - 1995 . . . . .	F-10
Combined Statement Of Cash Flows ) All Proprietary And Similar Trust Funds - 1995 . . . . .	F-12
Notes To Financial Statements . . . . .	F-14
Additional Information:	
Additional Information Regarding Audits Of Special Purpose Districts Included In Trust And Agency Funds . . . . .	F-40
Schedule Of State Financial Assistance - 1995 . . . . .	F-43
<hr/> <b>Single Audit Section</b> <hr/>	
Independent Auditor's Report On Supplementary Information Schedule Of Federal Financial Assistance . . . . .	S-1
Schedule Of Federal Financial Assistance - 1995 . . . . .	S-2
Notes To Schedule Of Federal Financial Assistance . . . . .	S-4
Independent Auditor's Report On Compliance With The General Requirements Applicable To Federal Financial Assistance Programs . . . . .	S-5
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Major Federal Financial Assistance Programs . . . . .	S-7
Independent Auditor's Report On Internal Control Structure Used In Administering Federal Financial Assistance Programs . . . . .	S-9
Status Of Prior Findings . . . . .	S-12
<hr/> <b>Addendum</b> <hr/>	
Directory Of Officials . . . . .	A-1

**CHELAN COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Board of Commissioners  
Chelan County  
Wenatchee, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Chelan County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 24, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Chelan County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

September 24, 1996

**CHELAN COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure  
At The Financial Statement Level**

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Board of Commissioners  
Chelan County  
Wenatchee, Washington

We have audited the general-purpose financial statements of Chelan County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 24, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

September 24, 1996

CHELAN COUNTY, WASHINGTON  
January 1, 1995 Through December 31, 1995

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Schedule Of Findings

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1. Chelan County Should Comply With The Growth Management Act And Spend Tax Revenue Appropriately

Chelan County is spending real estate excise tax revenue generated from the sale of real property without proper legal authority. This tax revenue is restricted to capital projects included in the capital facilities element of the comprehensive plan under the Growth Management Act. Under this Act, Chelan County was required to adopt this comprehensive plan on or before July 1, 1994. Because the county has not complied with the Act and adopted a comprehensive plan, we question \$835,000 spent by Chelan County during July 1, 1994, through December 31, 1995. The county continues to spend this money in 1996 as well.

RCW 36.70A.040(3)(d) states in part:

If the county has a population of fifty thousand or more the county shall adopt a comprehensive plan on or before July 1, 1994.

RCW 82.46.010(2) states in part:

After April 30, 1992, revenues generated from the tax imposed under this subsection in counties over five thousand population . . . that are required to plan under RCW 36.70A.040 (Growth Management Act) shall be used solely for financing capital projects specified in a capital facilities plan element of a comprehensive plan and relocation assistance.

We recommend that Chelan County complete a comprehensive plan with a capital facilities plan element as required by the Growth Management Act. We also recommend that Chelan County return all moneys spent inappropriately to the real estate excise tax fund.

Auditee's Response

*The Chelan County Commissioners responded to a preliminary draft of our finding as follows:*

*The tax revenue in question was implemented in 1989 prior to the existence of the Growth Management Act and is in compliance with provisions of RCW 82.46.010 and the Chelan County Capital Improvement Plan adopted in 1988. These expenditures were made for capital items of high priority which would be in compliance with elements of the Growth Management Act. Therefore, we feel these expenditures were appropriate. The Chelan County Prosecuting Attorney indicated that these actions were legally in compliance.*

Auditor's Concluding Remarks:

During the course of the audit, Chelan County's Capital Improvement Plan, adopted in 1988, was presented to an assistant attorney general who provides legal advice to our office. She determined that the plan did not meet the requirements of a capital facilities plan element of a comprehensive plan and relocation assistance. As a result, we reaffirm our finding.

2. The County Should Improve Internal Controls Over Compensatory Time

During our review of the county's payroll system, we noted internal control weaknesses over compensatory (comp) time.

The county does not have uniform procedures regarding comp time. Comp time is not monitored, approved, or adequately documented. For example, employees who were exempt from earning comp time, per the county's policy, accumulated large comp time balances. As a result, comp time balances may not be accurate or complete.

The lack of internal controls over comp time increases the risk that the county will incur unsupported and/or unauthorized expenditures.

We recommend the county improve internal controls over compensatory time by implementing uniform procedures.

Auditee's Response:

*The Chelan County Commissioners responded to a preliminary draft of our finding as follows:*

*In 1994, the Chelan County Commissioners passed Resolution No. 94-25 in regards to Fair Labor Standards Act addressing compensatory time. This resolution was reviewed by the County's attorney and was in his opinion a suitable policy, but suggested the County develop a "cap" on how many hours may be accumulated. The issue of compensatory time has been of great concern to the County Auditor's Office, and it was therefore decided to state in Resolution No. 94-25 that the Auditor should be responsible for establishing the necessary internal control structure to ensure that all compensatory time is recorded and reported properly. To date the Auditor has not yet accomplished this task. The Commissioners' staff will work in conjunction with the Auditor to establish this internal control measure to be implemented by early 1997.*

*The Chelan County Auditor responded to the Commissioners' response as follows:*

*Internal controls over compensatory time has been a long standing problem in Chelan County. In trying to correct the problem, the Commissioners passed Resolution No. 94-25 to determine "exempt" or "non-exempt" in accordance with FLSA regulations.*

*This was a good first step but the implementation was stopped because there were some over lying issues left outstanding. We were concerned about treating all employees the same under this policy.*

*The two main obstacles to implementing the resolution were:*

1. *Exempt employees had previously built up banks of overtime. We were not given the authority to gather this information so we could not establish a starting point for many employees.*
2. *Exceptions were made to the county policy for some exempt employees. Therefore, some are still earning comp time.*



*I asked the Commissioners to arrange a meeting with a special labor attorney to help us establish the comp time hours, if any, on exempt employees who had been accumulating comp time in the past. This was to help safeguard the county from possible legal ramifications. This meeting has never taken place.*

*We will be glad to establish procedures necessary to implement Resolution No. 94-25 but first the commissioners need to negotiate a starting point so we can change from the old way to the new.*

Auditor's Concluding Remarks:

In their respective responses, the county commissioners and the County auditor demonstrate a willingness to implement the necessary internal controls over comp time. We encourage a team effort involving legal counsel. We will review the county's progress in these areas during our next regularly scheduled audit.

We also wish to thank county officials and personnel for their assistance and cooperation during our audit.

**CHELAN COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional  
Information**

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Board of Commissioners  
Chelan County  
Wenatchee, Washington

We have audited the accompanying general-purpose financial statements of Chelan County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chelan County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Chelan County.

Brian Sonntag  
State Auditor

September 24, 1996

**CHELAN COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Board of Commissioners  
Chelan County  
Wenatchee, Washington

We have audited the general-purpose financial statements of Chelan County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 24, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Chelan County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

September 24, 1996

**CHELAN COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Board of Commissioners  
Chelan County  
Wenatchee, Washington

We have audited the general-purpose financial statements of Chelan County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 24, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

September 24, 1996

CHELAN COUNTY, WASHINGTON  
January 1, 1995 Through December 31, 1995

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**Independent Auditor's Report On Compliance With Specific Requirements  
Applicable To Major Federal Financial Assistance Programs**

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Board of Commissioners  
Chelan County  
Wenatchee, Washington

We have audited the general-purpose financial statements of Chelan County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 24, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to right-of-way, vouchers, and sampling and testing as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Chelan County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

September 24, 1996

**CHELAN COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Board of Commissioners  
Chelan County  
Wenatchee, Washington

We have audited the general-purpose financial statements of Chelan County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 24, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 24, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated September 24, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.



Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Cash receipts
  - Purchasing and accounts payable
  - Payroll
  - General ledger
- **General Requirements**
  - Political activity
  - Davis-Bacon Act
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
  - Types of services
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Cash disbursements
  - Receivables
  - Receiving
  - Inventory control
  - Property, plant, and equipment
- **General Requirements**
  - Relocation assistance and real property acquisition
- **Specific Requirements**
  - Eligibility

- **Claims For Advances**

During the fiscal year ended December 31, 1995, the county expended 83 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

September 24, 1996

CHELAN COUNTY, WASHINGTON  
January 1, 1995 Through December 31, 1995

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Status Of Prior Findings

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The finding contained in the prior audit report was resolved as follows:

1. Chelan County Officials Should Adopt And Implement Policies And Procedures For Investigating Whistleblower Complaints As Required By Law

Resolution: *The county adopted a Whistleblower Policy.*